
March 2001

DOD COMPETITIVE SOURCING

Effects of A-76 Studies on Federal Employees' Employment, Pay, and Benefits Vary



Form SF298 Citation Data

Report Date ("DD MON YYYY") 00MAR2001	Report Type N/A	Dates Covered (from... to) ("DD MON YYYY")
Title and Subtitle DOD COMPETITIVE SOURCING: Effects of A-76 Studies on Federal Employees Employment, Pay, and Benefits Vary		Contract or Grant Number
		Program Element Number
Authors		Project Number
		Task Number
		Work Unit Number
Performing Organization Name(s) and Address(es) General Accounting Office, PO Box 37050, Washington, DC 20013		Performing Organization Number(s) GAO-01-388
Sponsoring/Monitoring Agency Name(s) and Address(es)		Monitoring Agency Acronym
		Monitoring Agency Report Number(s)
Distribution/Availability Statement Approved for public release, distribution unlimited		
Supplementary Notes		
<p>Abstract This letter responds to your request for information about the impact of public/private competitions under the Office of Management and Budget Circular A-76 on employment, pay, and benefits of individual federal workers who formerly performed that work. Specifically, you expressed concern about the extent to which such competitions might adversely affect the pay and benefits of former federal employees and could result simply in shifting government jobs to the private sector at lower pay and benefits. This report draws on our previous work examining the results of A-76 competitions within the Department of Defense and additional data to describe (1) how A-76 competitions reduce estimated costs of Defense activities and (2) what impact the competitions have on affected federal employees employment, pay, and benefits.</p>		
Subject Terms		
Document Classification unclassified		Classification of SF298 unclassified
Classification of Abstract unclassified		Limitation of Abstract unlimited
Number of Pages 23		



**United States General Accounting Office
Washington, D.C. 20548**

March 16, 2001

The Honorable Herbert Kohl
The Honorable Russell Feingold
United States Senate

This letter responds to your request for information about the impact of public/private competitions under the Office of Management and Budget Circular A-76 on employment, pay, and benefits of individual federal workers who formerly performed that work. Specifically, you expressed concern about the extent to which such competitions might adversely affect the pay and benefits of former federal employees and could result simply in shifting government jobs to the private sector at lower pay and benefits. This report draws on our previous work examining the results of A-76 competitions within the Department of Defense and additional data to describe (1) how A-76 competitions reduce estimated costs of Defense activities and (2) what impact the competitions have on affected federal employees' employment, pay, and benefits.

Results in Brief

Office of Management and Budget Circular A-76 competitions have reduced estimated costs of Defense activities primarily through reducing the number of positions needed to perform activities being studied. Our work has shown that this is true whether the government's in-house organization or the private sector wins the competitions. Both government and private sector officials experienced with such studies have stated that to be successful in an A-76 competition, they must seek to reduce the number of positions required to perform the function being studied.

The impact on employment, pay, and benefits of individual employees affected by A-76 studies varies depending on factors such as the results of the competitions, the availability of other government jobs, and other individual factors, such as retirement eligibility. Pay may also be affected by the location and technical nature of the work. These factors make it difficult to draw universal conclusions about the effects of A-76 decisions on affected federal employees' employment options, pay, and benefits. Our analysis of three completed A-76 studies showed about half of the civilian government employees remained in federal service following the studies, either in the new or another government organization with similar pay and benefits. Most of the remaining employees received a cash incentive of up

to \$25,000 to retire or separate. There were a relatively small number of involuntary separations. Further, employees that left government service and applied for positions with the contractors who won the competitions were hired. Pay and benefit minimums offered by contractors are set by law for various geographical areas, which resulted in some employees making less than what they did as government employees and others making more. In many instances, former government employees who accepted employment with the contractors received a cash incentive to leave government service and federal retirement benefits. Contractor benefit packages also differed, but the types of benefits, such as health insurance, vacation time, and savings plans, appeared to be similar to what the government offers.

Background

Since 1955, the executive branch has encouraged federal agencies to obtain commercially available goods and services from the private sector when the agencies determined that such action was cost-effective. The Office of Management and Budget formalized the policy in Circular A-76, issued in 1966. Later, it issued a supplemental handbook that provided the procedures for competitively determining whether commercial activities should be performed in house, by another federal agency through interservice support agreements, or by the private sector. In general, the competition process involves the government describing work to be performed, such as aircraft maintenance or base operating support, in a performance work statement and soliciting private sector offers. The government also prepares an in-house cost estimate to perform the same work based on its most efficient organization. The government estimate is then compared to the selected offer from the private sector to determine who will perform the function.

We have previously reported that A-76 studies can produce cost reductions whether the competitions are won by the public or the private sector.¹ Cost reductions result from efforts to achieve more efficient organizations. At the same time, we have also noted some limitations in (1) the precision of the Department of Defense's savings estimates from A-76 studies due to such factors as the need to offset up-front investment costs associated with

¹ *DOD Competitive Sourcing: Savings Are Occurring, but Actions Are Needed to Improve Accuracy of Savings Estimates* (GAO/NSIAD-00-107, Aug. 8, 2000) and *DOD Competitive Sourcing: Some Progress but Continuing Challenges Remain in Meeting Program Goals* (GAO/NSIAD-00-106, Aug. 8, 2000).

conducting the studies and implementing the results and (2) baseline operating costs against which savings are calculated.

When contractor performance is chosen, wages and benefits are often governed by the Service Contract Act for services or the Davis Bacon Act for construction, which prescribes minimum pay and benefits for contractor employees under government contracts. The Service Contract Act of 1965 provides that pay and benefit levels be established by the Department of Labor for certain contractor employees, including, for example, office clerks and aircraft maintenance workers. The Davis Bacon Act of 1931 provides for the establishment of minimum pay and benefit levels, again to be set by the Department of Labor, for most construction skill classifications. Some employees, however, may be covered by existing collective bargaining agreements.

The Department of Labor is responsible for administering the provisions of these acts. It periodically establishes and reassesses pay and benefit levels based on a survey of the wages offered by the private sector in local geographic areas by skill classification. It also establishes flat hourly rates for skill classifications in different geographical areas based on the median level of pay for those job classifications in those areas. The Department of Labor periodically reassesses the rates and publishes updates when the median levels change.

In terms of other benefits, the Service Contract Act and the Davis Bacon Act require contractors to provide a minimum level of benefits. Contractors, however, have flexibility in the types of benefits they provide. For example, they could provide a combination of benefits, such as retirement, and health and life insurance, as long as benefits meet or exceed the minimum level. They also could allow employees to place some or all the benefit amount in a 401(k) plan or receive the benefit in cash.

Costs Reduced Primarily From Using Fewer Persons to Perform Required Work

Our analysis and discussions with government and private sector officials that are involved in A-76 competitions continue to affirm, as we previously reported,² that most estimated cost reductions from competitions are related to reduced personnel cost estimates—mostly a reduction in personnel requirements. Government and contractor officials told us they use a variety of techniques to minimize the number of personnel needed to perform a required function. These techniques include limiting proposed activities to the streamlined requirements detailed in the performance work statement, substituting civilian for military workers, designing a new work process, multiskilling (employees performing more than one skill), and proposing modern methods and equipment to complete the tasks.

Contractor and defense officials stated that personnel reductions are key to achieving reduced costs from A-76 competitions. For example, we previously reported on an A-76 competition involving aircraft maintenance at the Altus Air Force Base, Oklahoma, where the Air Force estimated cost reductions of \$20 million annually.³ In initiating the study, the Air Force planned to convert its largely military workforce to civilian personnel, either government employees or employees of a contractor, depending on the results of the A-76 study. Either way, civilian workers were expected to be less costly. The organization in place before the study had 1,444 authorized positions: 1,401 were military positions. After the study, the selected government organization had 735 positions—all civilians, almost a 50-percent reduction.

A performance work statement serves as the basis for determining personnel requirements for both government estimates and private sector offers. Because labor represents the predominant costs in an A-76 study, both the in-house government organization and the contractors develop work strategies that enable them to perform the work requirements with the minimum number of people. They also develop their personnel requirements by determining the skill classifications needed and the number of staff hours per classification to complete tasks over a time period. For example, if they had an average need for 240 hours of plumbing tasks each 40-hour week, then they would need six people with plumbing skills. Contractors told us they use the least costly skill classification and

² DOD Competitive Sourcing: Results of Recent Competitions (GAO/NSIAD-99-44, Feb. 23, 1999).

³ DOD Competitive Sourcing (GAO/NSIAD-00-107, Aug. 8, 2000).

multiskill and multirole employees to complete the required tasks. For simple plumbing, electrical, and carpentry tasks, a less costly maintenance worker classification could be used, not a fully qualified electrician, for example. Contractors also have the flexibility to use temporary or seasonal workers to meet periodic workload needs, pay overtime, or pay higher wages to workers in a lower pay classification to temporarily perform tasks performed by employees in a higher classification. The government can use many of these techniques, but it may need to obtain the cooperation of employee groups and obtain waivers to personnel procedures.

Impact of A-76 Competitions on Affected Employees' Employment, Pay, and Benefits Varies

The impact on employment, pay, and benefits of individual employees affected by A-76 studies varies depending on factors such as the results of the competitions, the availability of other government jobs, and other more individual factors such as retirement eligibility. Pay may also be affected by the location and technical nature of the work. These factors make it difficult to draw universal conclusions about the effects of A-76 decisions on affected federal employees' employment options, pay, and benefits. Our analysis of the results of three A-76 case studies, one that remained a government activity and two won by the private sector, illustrates how federal employees may be affected. The three studies show that about half of the civilian government employees remained in federal service, either in the new or another government organization, with similar pay and benefits, and most of the remaining employees received a cash incentive of up to \$25,000 to retire or separate. A small number of employees were involuntarily separated. Further, we found that all employees that applied for positions with winning contractors were hired. Types of benefits provided by the contractors, such as health insurance, vacation time, and savings plans, appeared to be similar to those offered by the government. Results of these three cases are highlighted below and further summarized in appendix I. The results are not projectable to the universe of employee actions resulting from A-76 studies, but they do illustrate estimates of a range of effects that may occur.

Impact on Employees' Employment, Pay, and Benefits Where Competitions Are Won by an In-House Organization

Federal employees' employment, pay, and benefits may be adversely affected even when the in-house organization wins an A-76 competition because the new in-house organization typically restructures the work and reduces the number of employees required to perform the work. Employees may be faced with positions being downgraded or even eliminated. However, the ultimate impact on pay and benefits of affected employees varies, depending on factors such as availability of other federal

positions, retirement eligibility, or use of “save pay” provisions associated with exercising employment rights under federal personnel reduction-in-force rules.

In establishing the new in-house organization, a reduction-in-force usually occurs. To minimize disruptions that can occur as the result of a reduction-in-force, the Department of Defense offers eligible employees a cash incentive, up to \$25,000, to retire or voluntarily separate. According to reduction-in-force procedures, a government employee that accepts a lower graded position is eligible to retain his/her former grade and pay for 2 years. At the end of the 2-year period, if the employee remains in the same position, his/her grade may be lowered, but his/her current pay is not lowered,⁴ although future pay raises may be limited. Employees who do not obtain positions in the new organization have priority for placement in other jobs within the Department of Defense for which they are qualified.

One case study at Wright Patterson Air Force Base, Ohio, involved studying 623 positions—428 civilian and 195 military. The in-house organization won the competition and the number of positions was reduced to 345 civilian positions and the military personnel were reassigned to other duties. In this case, 83 full-time civilian positions were eliminated. Of the employees in the positions eliminated, 28 obtained other government positions, 53 chose voluntary retirement, and 2 were involuntarily separated.

Of the 345 employees authorized for the new organization, 310 came from the previous organization. Available information indicated that among those employees,

- 52 percent experienced a reduction in grade,
- 31 percent remained at the same grade level,
- 1 percent obtained a higher grade level, and
- 15 percent changed wage systems, making it difficult for us to determine the impact on their grade level.⁵

⁴ One exception is that an employee's retained pay rate may not exceed 150 percent of the top rate of the grade to which he/she is reduced.

⁵ We also could not determine the impact on grade for another 1 percent of employees because Wright Patterson Air Force Base officials could not provide us with complete information to conduct our analysis.

As mentioned previously, those employees who had reductions in grade may not experience a decrease in actual pay or benefits.

Impacts on Employees' Pay and Benefits Where Competitions Are Won by the Private Sector

When a contractor wins a competition, generally positions associated with the in-house organization are eliminated through a reduction-in-force and all government civilian workers in the former activity must evaluate their options. In general, this means they must obtain other government employment, retire, or separate, as discussed previously. Employees who retire or separate may also have the option of working for the contractor. Separated employees have right-of-first refusal for employment with winning contractors for positions for which they are qualified.⁶

In the two studies we examined where contractors won, approximately two-thirds of the affected civilian employees accepted a cash incentive to voluntarily retire or separate. About 25 percent obtained other government jobs and generally retained their same pay and benefit levels. The remaining employees, less than 10 percent, were involuntarily separated. Some of the retired and separated workers applied for a job with the contractors and, according to the contractors' officials, all were hired.

Contractors we spoke with indicated that they actively recruit displaced and retired workers because they do not usually have a readily available workforce in place to staff the new organization. Further, they stated that they want to hire as many former government employees as possible because it gives them an experienced workforce and also lowers their recruiting, hiring, and training costs compared to hiring an external workforce. We were told that all former separated or retired employees who applied with these two contractors were hired. However, not all separated or retired government employees sought employment with the contractors. One contractor told us approximately 60 percent of the staff it hired were former civilian or military employees. Another contractor reported hiring about 20 percent.

Employees that go to work for a contractor may have a different salary than what they had with the government, which could be higher or lower.

⁶ Office of Management and Budget Circular A-76, Supplemental Handbook, ch. 1. H, requires contract provisions that give federal employees adversely affected or separated as a result of conversion to contract the right-of-first refusal for employment openings under the contract in positions for which they are qualified.

Salaries and benefits for most employees that provide services on government contracts are based on the pay and benefit wage scales established pursuant to the Service Contract Act. Contractors we spoke with said they must minimize labor costs to win the competition—first against other competing contractors and then against the in-house government estimate. Therefore, they do not typically submit offers with higher pay and benefit levels than the minimum established by the Department of Labor under the Service Contract Act. Thus, while the contract labor rates can differ either positively or negatively for a former government employee, for covered positions, the contractor must pay wages that prevail in a given geographic area.

In the two contractor case studies, information was not readily available to identify precise changes in pay for the former government employees who had accepted employment with the winning contractors. In general, for the one contractor where we analyzed pay changes, we identified instances where pay rates were less and in other instances where pay rates were more than before. However, the precise difference was not always clear because of limited information on employees' previous salaries. In many instances, these former government employees received a cash incentive to leave government service and were also receiving federal retirement benefits.

In terms of benefits, table 1 shows that the government and contractor employees in our case studies were provided many of the same types of benefits. However, comparing actual benefits was not possible because data were not readily available on benefit amounts for individual employees. In addition, some government employee benefits were calculated based on length of service (such as vacation time) and pay (such as contributions to the federal retirement savings plan), and participation in many of the benefits is voluntary (such as health insurance, life insurance, and the Thrift Savings Plan).

Table 1: Comparison of Available Government and Contractor Benefits for Three Case Studies

Type of benefit	Government	Contractor at Wright Patterson	Contractor at Tyndall
Health insurance	X	X	X
Life insurance	X	X	X
Workers compensation or disability insurance	X	X	X
Voluntary employee contributions to 401(k), thrift savings plans, or similar plans	X	X	X
Employer matching contributions to 401(k), thrift savings plans, or similar plans	X ^a	X	X
Retirement annuity plans	X		
Social security	X ^a	X	X
Paid vacation	X	X	X
Paid holidays	X	X	X
Paid sick leave	X	X ^b	
Paid personal leave	X ^c	X ^b	
Paid dental insurance		X	X
Paid optical insurance		X	X
Incentive sharing			X ^d

^a Available under one federal retirement system—Federal Employee Retirement System—and not under an older system—the Civil Service Retirement System.

^b One contractor allows up to 40 hours per year of paid time for sick and personal leave. The other contractor includes sick and personal leave in its vacation leave benefits.

^c Vacation time may be used for personal leave.

^d When incentive fee contracts result in cost reductions below the target amount, the savings are shared between the government and the contractor. This contractor, in turn, shares its savings with its employees.

Source: GAO analysis of government and contractor documents.

Some of the contractors we spoke with also offered sick or personal leave and some contractors added additional paid vacation time for length of service.

Agency Comments and Our Evaluation

In oral comments on a draft of this report, on February 23, 2001, the Deputy Under Secretary of Defense for Installations concurred with the report's findings. Technical comments were also provided and were incorporated as appropriate.

Scope and Methodology

To determine how A-76 competitions have reduced estimated costs, we relied on our review of A-76 savings and a separate review of the status of the Department of Defense's competitive sourcing program.⁷ We also discussed this issue with contractor representatives who had participated in A-76 competitions.

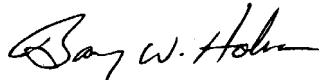
To determine the impact of A-76 competitions on employment, and on estimated pay and benefits, we judgmentally selected two studies at Wright Patterson Air Force Base, Ohio (one where contractors were selected and one where the in-house government organization was selected) and one study that contractors won at Tyndall Air Force Base, Florida. These studies were selected because they involved a large number of positions, resulted in both in-house and contractor decisions, and were completed within the past few years to better ensure availability of data. We sought to determine the employment options for employees involved in these three studies as well as the impact on their estimated pay and benefits through interviews and analyses of documentation from defense contracting and personnel officials and contractor representatives. We also interviewed 79 of the 82 former civilian or military government employees that went to work for the contractor that won the Tyndall civil engineering segment of the competition. However, our analyses were constrained due to limited available data concerning individual former employees. For example, base personnel offices did not track what happened to personnel affected by a specific A-76 study and could not provide us with exact government salary information for employees that went to work for contractors. We did not independently verify the pay and benefit estimates provided by the government or the contractors. Therefore, we could only estimate the impact on pay and benefits for these three cases. The results are not projectable to the universe of employee actions resulting from A-76 studies, but they do illustrate estimates of a range of effects that may occur.

We conducted our review from August 2000 through January 2001 in accordance with generally accepted government auditing standards.

⁷ *Competitive Sourcing* (GAO/NSIAD-00-107, Aug. 8, 2000) and *Competitive Sourcing* (GAO/NSIAD-00-106, Aug. 8, 2000).

As agreed with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days after the date of this letter. At that time, we will send copies of the report to the Honorable Donald H. Rumsfeld, Secretary of Defense; the Honorable Mitchell E. Daniels, Director, Office of Management and Budget; and other interested congressional committees. We will make copies of this letter available to others upon request.

If you or your staff have any questions regarding this letter, please contact me at (202) 512-5581. Key contributors to this assignment were Cheryl Andrew, Margaret Morgan, Thad Rytel, and Marilyn Wasleski.



Barry W. Holman
Director, Defense Capabilities and Management

Summary Information for Three A-76 Case Studies

The following provides key information surrounding three A-76 case studies discussed in this letter. In general, the studies indicate that savings result from personnel reductions, whether the government or contractor organization is selected. Displaced workers must either obtain other government employment, retire, or separate. The studies showed that about half of the civilian government employees remained in federal service, either in the new or another government organization. Relatively few workers were involuntarily separated and those employees who retired or separated and wanted to work for the contractor were hired.

Our efforts to compare precise pay and benefits before and after the competitions were hampered by not being able to obtain actual pay and benefit data and the differences in pay systems and job responsibilities. However, we were able to determine that government employees retained in government positions had virtually no change in pay and benefits because of pay protection provisions. Most workers employed by contractors had their pay and benefits determined under the Service Contract Act, which requires pay comparability to the local area and a minimum level of benefits as determined by the Department of Labor.

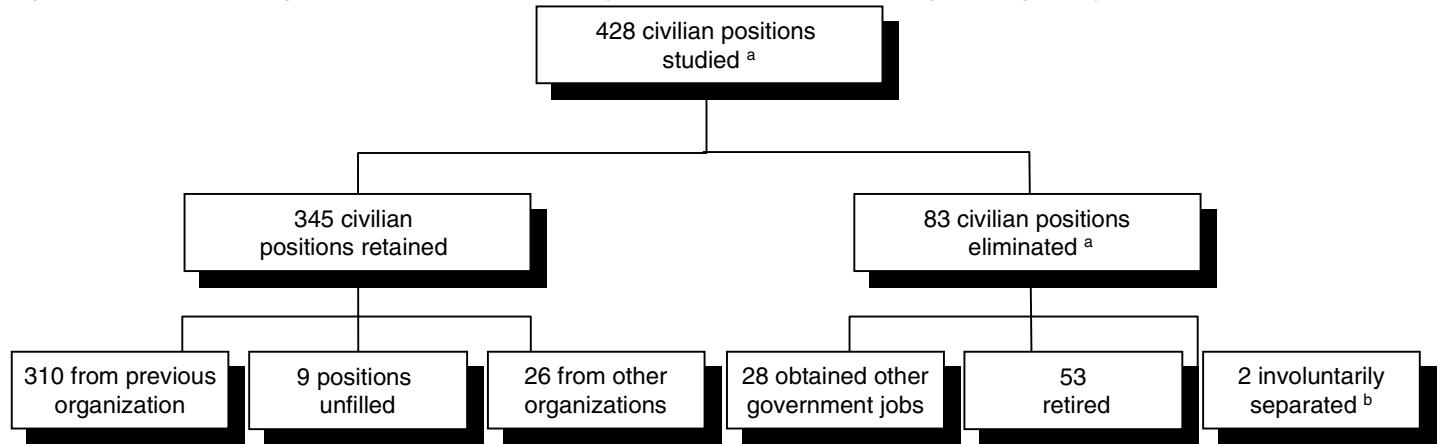
Civil Engineering Study—Wright Patterson Air Force Base, Ohio

Overview: In August 1997, Wright Patterson Air Force Base announced its plans to conduct an A-76 study of 623 positions—428 civilian and 195 military—associated with civil engineering. Personnel involved in this activity were responsible for general building and grounds maintenance such as plumbing, painting, electrical, and carpentry work. The in-house most efficient organization won the competition and as a result, the Air Force expects to save an estimated \$97 million over 6 years.

Impact on employment: The new in-house organization, which was implemented in October 2000, consists of 345 positions, representing a reduction of about 45 percent in the number of positions previously associated with the activity. Figure 1 shows what happened to the civilian personnel involved with this study.

Appendix I
Summary Information for Three A-76 Case Studies

Figure 1: Impact on Wright Patterson Civilian Employees Involved in the Civil Engineering Study



^a One hundred and ninety-five military positions were also studied. The positions were eliminated and military personnel reassigned.

^b Totals do not include 61 temporary employees also released.

Source: GAO analysis of data provided by Wright Patterson civilian personnel and civil engineering officials.

Of the positions filled, almost 90 percent of the personnel in the new civil engineering organization (310 employees) were previously assigned to the former organization and almost all of the remaining employees came from other organizations at the base. A majority of the positions that were eliminated were military positions. The military personnel were reassigned to other activities. Eighty-three full-time civilian positions were eliminated. Of the employees in positions eliminated, 53 people retired and received a \$25,000 separation incentive along with their pension; 28 people found other government positions. Only two permanent employees were involuntarily separated and received severance pay based on their years of service.

Impact on pay and benefits: The study results were implemented primarily through reduction-in-force procedures. With the exception of a few employees that experienced a salary increase by obtaining a higher grade level, employees in the new government organization or those that found other government jobs kept the same salary and benefits they had when working in the previous activity. For the 310 employees in the new government organization that were previously assigned to the organization:

- 52 percent experienced a reduction in grade,

- 31 percent remained at the same grade level,
- 1 percent obtained a higher grade level, and
- 15 percent changed wage systems, making it difficult for us to determine the impact on their grade level.¹

However, according to reduction-in-force procedures, employees that experience a reduction in grade are eligible to retain their former grade and pay for 2 years. While at the end of the 2-year period, the employee's grade is lowered, the current pay would not be lowered; however, future pay raises could be limited.²

Base Operating Support Study—Wright Patterson Air Force Base, Ohio

Overview: In May 1996, Wright Patterson Air Force Base announced its intent to conduct an A-76 study on 499 positions—411 civilian and 88 military—associated with base operating support activities. These activities included base supply, transportation, maintenance, a laboratory, and a laboratory supply function. In 1998, the base awarded firm fixed-price plus award fee contracts to two separate contractors.³ The Air Force estimates the study will result in \$14 million in annual savings, for a total of almost \$58 million over a 49-month contract period.

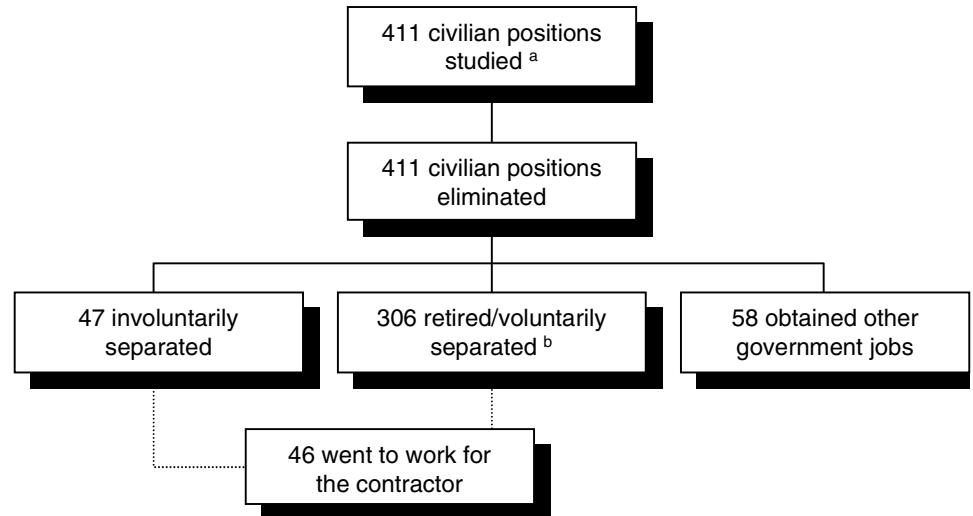
Impact on employment: As a result of the contractor win, 411 civilian positions and all 88 military positions were eliminated through a reduction-in-force, with the military personnel being reassigned to other activities. Figure 2 shows what happened to civilian employees as a result of this competition.

¹ We also could not determine the impact on grade for another 1 percent of employees because Wright Patterson Air Force Base officials could not provide us with complete information for our analysis.

² One exception is that an employee's retained pay rate may not exceed 150 percent of the top rate of the grade to which they are reduced.

³ One contractor was awarded the base supply, transportation, and maintenance work. Another contractor was awarded the laboratory and laboratory supply work. The contractor that was awarded the base supply, transportation, and maintenance work hired former government employees.

Figure 2: Impact on Wright Patterson Civilian Employees Involved in Base Operating Support Contract



^a Eighty-eight military positions were also studied; spaces at Wright Patterson were eliminated and military personnel reassigned.

^b Wright Patterson officials could not provide a breakout of the number of employees that retired versus voluntarily separated.

Source: GAO analysis of data provided by Wright Patterson civilian personnel and contractor officials.

Most of the civilian personnel whose positions were eliminated (about 75 percent) retired or voluntarily separated. These employees received a separation incentive of up to \$25,000 and in the case of those that retired, a retirement pension. Fifty-eight other civilians (14 percent) found other government jobs with the Air Force and generally retained their same salary and benefit level. Another 47 people were involuntarily separated and received separation pay based on their years of service.

According to the contracting official in charge of overseeing the contract, 46 of the affected government employees came to work for the contractor. Almost 60 percent of these employees retired from government service.

Impact on pay and benefits: The impact on pay and benefits of each employee varied depending on whether the displaced employee obtained another government position, retired, separated, or went to work for the contractor. Based upon discussions with Wright Patterson officials and our review of federal reduction-in-force procedures, we determined that those employees who found other government jobs generally maintained the

same pay and benefit levels they had prior to losing their base operating support activity position. We could not, however, precisely determine the change in salary for each individual employee that went to work for the one contractor that hired former government employees because Wright Patterson officials could not provide us with their actual salary information. Instead, they gave us the grade level each employee had achieved before leaving government service, but not the step within that grade level. To the extent the employees may have been at the bottom steps of their pay grades, our analysis indicated that about 60 percent of these employees would likely have received less pay from the contractor than the government. The higher the steps within the grade, more employees would have received less pay under the contractor. However, at the same time, a majority of these employees accepted employment with the contractor after retiring from federal service and augmented their contractor pay with their retirement annuities.

Contractor employees receive a minimum of \$1.92 per hour, or about \$4,000 per year in benefits. Employees can use this amount to pay for health benefits, invest the money in a company 401(k) plan, or take an additional cash payment in their check. Employees are offered a variety of benefits, including medical, dental, vision, short- and long-term disability, and life insurance. They also receive paid vacations, holidays, and sick time.

Aircraft Maintenance Support and Base Operating Support Study—Tyndall Air Force Base, Panama City, Florida

Overview: In December 1994, Tyndall Air Force Base announced its intent to conduct an A-76 study on 1,068 positions—272 civilian and 796 military—associated with aircraft maintenance and base operating support. Three contractors won the competitions and in October 1997, the base awarded fixed-price incentive fee contracts for its base operating support activity and aircraft maintenance support.⁴ Air Force officials estimated at the time of award that this A-76 study would save about \$19 million over a 5-year period compared to the previous cost of the activity.

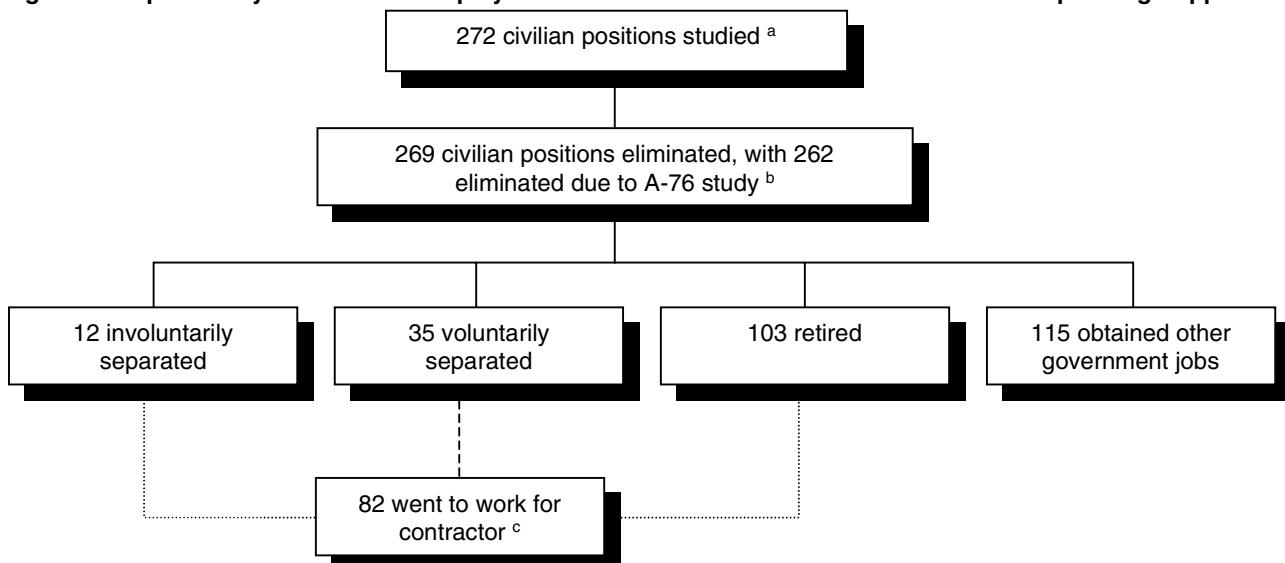
Impact on employment: As a result of the contractors' win, 262 civilian positions and 796 military positions were eliminated, with the military

⁴Two separate contractors were awarded the base operating support contracts—one for the civil engineering work, the other for supplies, fuels, and transportation. Another contractor was awarded the aircraft maintenance contract.

Appendix I
Summary Information for Three A-76 Case Studies

personnel being reassigned to other duties. To implement the study results, a reduction-in-force occurred. Figure 3 shows what happened to civilian employees as a result of this competition.

Figure 3: Impact on Tyndall Civilian Employees Involved in Aircraft Maintenance and Base Operating Support Contracts



^a Seven hundred and ninety-six military positions were also studied; as a result, military positions at the base were eliminated and personnel reassigned.

^b Numbers do not add because they include other base employees affected by the reduction-in-force. Totals do not include 124 temporary employees also released.

^c These 82 employees included voluntarily and involuntarily separated civilian employees, released temporary civilian employees, retired civilian employees, and separated and retired military employees. They constitute all former government employees who requested interviews with the contractor.

Source: GAO analysis of data provided by Tyndall civilian personnel and contractor officials.

About half of the civilian personnel either retired (39 percent) or voluntarily separated (13 percent). These employees received a separation incentive of up to \$25,000 and in the case of those that retired, a retirement pension. Forty-four percent of the civilian employees found another government job and retained their same salary and benefit levels. About 5 percent were involuntarily separated and received separation pay based on their years of service.

Impact on pay and benefits: We could not determine the change in salary of each employee that went to work for the contractors because Tyndall

Appendix I
Summary Information for Three A-76 Case
Studies

personnel officials did not have actual salary information accessible. We focused our review on only the employees affected by the civil engineering contract and interviewed 79 of the 82 former civilian or military government employees who went to work for the contractor. Based upon our interviews, many had retired from the military or civil service. The consensus of the employees was that they were being paid less for similar duties than when they were working for the government. However, for the retired government and military workers, the combination of retiree pay and benefits together with the pay and benefits from the contractor was usually greater than what they had previously received. Further, they indicated that the contractor's wages were greater than what they could get working in similar duties in the local private sector. The contracting official in charge of overseeing the contract said positions were offered to all former government employees that applied and, as of January 2001, none had been let go.

The contracting official further told us that these employees receive a minimum of \$2.56 per hour, or about \$5,300 a year, that they can apply to various health benefits and a 401(k) plan.⁵ Employees are offered a variety of benefits, including medical, dental, vision, 401(k), short- and long-term disability, and life insurance. They also receive paid vacations and holidays, but paid sick time is not provided.

⁵This rate is higher than the current \$1.92 per hour minimum because the contract was bid using the higher local rate at the time.

Ordering Information

The first copy of each GAO report is free. Additional copies of reports are \$2 each. A check or money order should be made out to the Superintendent of Documents. VISA and MasterCard credit cards are accepted, also.

Orders for 100 or more copies to be mailed to a single address are discounted 25 percent.

Orders by mail:
U.S. General Accounting Office
P.O. Box 37050
Washington, DC 20013

Orders by visiting:
Room 1100
700 4th St. NW (corner of 4th and G Sts. NW)
U.S. General Accounting Office
Washington, DC

Orders by phone:
(202) 512-6000
fax: (202) 512-6061
TDD (202) 512-2537

Each day, GAO issues a list of newly available reports and testimony. To receive facsimile copies of the daily list or any list from the past 30 days, please call (202) 512-6000 using a touchtone phone. A recorded menu will provide information on how to obtain these lists.

Orders by Internet:
For information on how to access GAO reports on the Internet, send an e-mail message with "info" in the body to:

info@www.gao.gov

or visit GAO's World Wide Web home page at:

<http://www.gao.gov>

To Report Fraud, Waste, or Abuse in Federal Programs

Contact one:

- Web site: <http://www.gao.gov/fraudnet/fraudnet.htm>
- e-mail: fraudnet@gao.gov
- 1-800-424-5454 (automated answering system)

**United States
General Accounting Office
Washington, D.C. 20548-0001**

**Official Business
Penalty for Private Use \$300**

Address Correction Requested

**Presorted Standard
Postage & Fees Paid
GAO
Permit No. GI00**

